



Jackson, Etti & Edu

NAICOM ISSUES CIRCULAR ON INCREASE IN
PAID-UP SHARE CAPITAL FOR INSURANCE
COMPANIES



Change in Minimum Paid-Up Share Capital Policy

On the 20th May 2019, the National Insurance Commission (**NAICOM**) issued Circular Number NAICOM/DPR/CIR/25/2019 titled “*Minimum Paid-up Share Capital for Insurance and Re-Insurance Companies in Nigeria*” (**the Circular**).

By the Circular, NAICOM communicates to all insurance and re-insurance companies as well as other stakeholders in the insurance industry that there is a new policy wherein the minimum paid-up share capital of the players in the insurance industry have been reviewed upward by NAICOM; this is coming more than a decade after the last increase in share capital for insurance companies in Nigeria.

Over 100% Increase in Paid-up Share Capital

The paid-up share capital as applicable in the industry was revised and increased by between 100% to over 230%. The revised paid-up share capital is based on class of insurance business being carried on by a company as indicated below:

S/N	Class of Insurance Business	Existing Minimum Paid-up Capital	Revised Minimum Paid-up Capital
1.	Life Insurance Business	N2,000,000,000 (\$6,514,658)	N8,000,000,000 (\$26,058,632)
2.	General Insurance Business	N3,000,000,000 (\$9,771,987)	N10,000,000,000 (\$32,573,290)
3.	Composite Insurance Business	N5,000,000,000 (\$16,286,645)	N18,000,000,000 (\$58,631,922)
4.	Re-Insurance Business	N10,000,000,000 (\$32,573,290)	N20,000,000,000 (\$65,146,580)

Departure from the Tier Based Capitalisation Model

It seems clear that NAICOM may have abandoned its tier-based minimum solvency capital model earlier adopted for insurance companies in Nigeria. In the present case, there is no classification of insurance companies into tier-based groups; the required minimum capital only depends on the kind of insurance business being undertaken by the relevant company.



Compliance Deadlines

The bar has now been raised for new companies applying for insurance licence from NAICOM as they will have to comply with the new minimum paid-up share capital requirement prior to registration by NAICOM.

Existing companies, however, have only one year, from the date of the Circular till 30th June 2020, within which to fully comply with the new policy.

Application of Section 10 of Insurance Act

The provisions of Section 10 of Insurance Act relate to deposit of a portion of the paid-up share capital by insurance companies. The Section provides:

10 (1) An insurer intending to commence insurance business in Nigeria after the commencement of this Act shall deposit the equivalent of 50 percent of the paid-up share capital referred to in section 9 of this Act (in this Act referred to as the "Statutory Deposit") with the Central Bank.

10 (2) Upon registration as an insurer, 80 percent of the statutory deposit shall be returned with interest not later than 60 days after registration.

10 (3) In the case of existing companies an equivalent of 10 percent of the minimum paid-up share capital stipulated in section 9 shall be deposited with the Central Bank

The effect of this provision is that any company seeking insurance licence from NAICOM will be required to deposit 50% of the applicable revised paid-up share capital with the Central Bank of Nigeria (CBN). Upon registration by NAICOM, the CBN will then return 80% of the deposited fund to the company (with interest). In the case of existing companies, 10% of the applicable revised paid-up share capital will be deposited with the CBN.

Capital to be Paid-Up

It is important to note that the required capital has to be paid up and not shareholders' funds. This is why Section 10 of the Insurance Act is applicable requiring a portion of the capital to be deposited with the CBN in line with the provisions of Act.

Exclusion of Takaful and Micro-insurance operators

The newly revised paid-up capital requirement is not applicable to Takaful Operators and Micro-Insurance Companies. This exclusion may not be unconnected with the fact that Takaful and Micro-insurance operations are still very new in the industry and should be allowed to develop before significant paid-up share capital requirements are applied to them.



Stakeholders' Views

Some industry stakeholders have regarded the new policy as an expected welcome development aimed at strengthening the players in the insurance sector whilst some others believe that the development will bring about business combinations activities in the industry to aid the ability of companies to comply with the new policy. There are other stakeholders who believe that the percentage increase being applied by NAICOM is too high and may be difficult to comply with given the state of Nigerian economy.

What Insurance Companies Need to do

Regardless of what stakeholders make of the new development, it is important that new insurance companies seeking registration consider the paid-up share capital as part of the application process whilst existing insurance companies start making plans in earnest to comply with the new policy ahead of the 30th June, 2020 deadline for compliance.



Key Contacts



Folasade Olusanya
Partner & Head of Practice
Corporate Commercial

e: folasadeolusanya@jacksonettiandedu.com



Kunle Soyibo
Managing Associate

e: adekunlesoyibo@jacksonettiandedu.com



Azeez Akande
Associate

e: azeezakande@jacksonettiandedu.com

Jackson, Etti & Edu is a full-service law firm with a sector focus, rendering legal services to Nigerian, Pan-African and International clients in diverse jurisdictions. We have earned a reputation for delivering commercial advice across all the key sectors: energy & natural resources, fast moving consumer goods (FMCGs), financial services, health & pharmaceuticals, real estate & infrastructure, and technology, media & entertainment.

Further information about the firm is available at www.jacksonettiandedu.com. This is a publication of Jackson, Etti & Edu and is for general information only. It should not be construed as legal advice under any circumstances.



RCO Court 3-5, Sinari Daranijo Street,
Victoria Island, Lagos, Nigeria.

t: +234 (1) 4626841/3, +234 (1) 2806989 f: +234 (1) 2716889

e: jacksonettiedu@jacksonettiandedu.com www.jacksonettiandedu.com